

**CareFirst Disclosure Schedules
Agreement and Plan of Merger
November 20, 2001**

Section 4.6(a)(ii) Reserves

At December 31, 2000, Preferred Health Network of Maryland, Inc. ("PHN") did not meet the Maryland Insurance Administration reserve requirements. However, as of September 30, 2001, PHN reserves are at 216% of risk-based capital, funded through earnings.

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Section 4.6(a)(iii) Reserves

PHN did not meet the reserve requirements of BCBSA at December 31, 2000; however, it met such requirements as of March 2001.

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Section 4.7(b) Taxes

In 1993, BCBS-NCA overstated its losses by \$39,183,626 on its federal income tax filing. In 1994, BCBS-NCA corrected its error by reducing the net operating loss carry-forward by the same amount on a subsequently filed income tax statement.

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Section 4.7(c) Taxes

On October 30, 2001, BCBS-MD entered into a settlement with the State of Maryland Sales & Use Tax Division (the "Maryland Tax Division"), regarding an audit for the period of February 1, 1997 to January 31, 2001, in amount of \$259,678.10, which amount includes \$60,930.67 of interest BCBS-MD did not have to pay any penalties, which were waived because of the State of Maryland recent tax amnesty program.

The Maryland Tax Division notified BCBS-MD that Willse & Associates, Inc. will be audited for the period November 1, 1997 to October 31, 2001. BCBS-MD and Willse are compiling the required information for a meeting with the Maryland Tax Division scheduled for November 26, 2001. At this time, an amount at risk has not been projected.

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Section 4.8(a),(b) Absence of Certain Changes or Events

1. In the first quarter of 2001, Free State Health Plan sold its pharmacy operations for \$2,979,000 to a non-affiliated third party.
2. BCBSD sold Allnation Insurance Company and Allnation Global Insurance Agency, Inc. to Barbados Life Assurance Society on October 31, 2001. BCBSD also will dissolve Allnation Delaware Insurance Agency, Inc. no later than December 31, 2001.
3. Managed Care Re-Positioning: As a result of CareFirst's Managed Care Re-Positioning initiatives, Patuxent Medical Group and Potomac Physicians, P.A. are changing from a capitated reimbursement to a fee-for-service model. As a result of this effort, Free State Health Plan (a capitated model HMO) likely will merge into CareFirst BlueChoice, Inc. (a fee-for-service model HMO), which will become CareFirst's regional HMO. In the process, Free State and Delmarva likely will exit their individual and small group market segments in Maryland and Delaware and give up Delmarva's certificate of authority to operate in Delaware. CareFirst expects to consummate all of its Managed Care Repositioning initiatives referred to herein by December 31, 2002. In connection with the repositioning, Free State Health Plan has informed the Office of Personnel Management ("OPM") that it will no longer participate in the Federal Employees Health Benefits Program and CareFirst BlueChoice has requested from OPM a change from community rating to experience rating.

CareFirst BlueChoice currently has approximately 4,000 subscribers in an area in Virginia in which Trigon Healthcare, Inc. holds the exclusive BCBSA right to use of the "Blue" brand. BCBS-NCA has applied to the appropriate Virginia regulatory agency for approval of a license to operate a new health maintenance organization in Virginia without the "Blue" brand in order to service the CareFirst BlueChoice subscribers.

4. BCBS-NCA has agreed to pledge \$1.65 million as collateral to secure obligations to BCS Life Insurance Co. in connection with long term care contracts issued by BCBS-NCA to members of B'nai Brith and administered by BCS Life Insurance Co.
5. On September 28, 2001, BCBS-MD received a draft report from Carmichael, Brasher, Tuvell and Company challenging \$4 million in Medicare claimed costs for fiscal years 1996-1999. BCBS-MD estimates the risk of loss to be \$637,000 and has established a \$627,000 reserve.
6. See also Section 4.12 disclosure schedule (including final Merger Incentive Plan, Retention Bonus Plan and Severance Plan).

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Section 4.9(b) Litigation; Judicial Proceedings

Case Name/Matter

1. BCBS-NCA v. OPM Final Decisions 149, 150 & 151
2. William and Judith Moore, individually and as parents and guardians of Alistaire Moore v. CapitalCare, Inc. (currently named CareFirst BlueChoice, Inc.) & BCBS-NCA
3. U.S. v. BCBS-NCA
4. Barbara M. Rubin v. BCBS-NCA
5. Boone v. CareFirst and John Doe Cleaning Vendor
6. Dehn v. BCBS-MD
7. Herbert Martello v. BCBS-MD and EDS
8. ElderHealth v. FSHP
9. Virginia Academy v. BCBS-NCA
10. McKandes v. BCBS-NCA and CapitalCare, Inc. (currently named CareFirst BlueChoice, Inc.)
11. American Radiology Services v. Patuxent Medical Group, Inc. and Free State Health Plan, Inc.
12. Jane and John Doe v. BCBS-MD
13. Susan Doe v. BCBS-MD
14. Alicia Smith v. Willse & Associates, Inc.
15. DHMH and Baltimore Medical Services v. FSHP
16. Dahne v. BCBS-MD
17. Larry Watts v. BCBS-MD
18. FSHP v. Dimensions Health Network

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19. HUB Realty Funding, Inc. v. BCBS-NCA
20. REIT Management and Research, Inc. v. BCBS-NCA

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Section 4.10(b) Compliance with Law

See Section 4.4(a) disclosure schedule for Insurance Commissioner Orders.

MATERIAL PERMITS, LICENSES AND APPROVALS

TYPE OF AUTHORITY OR APPROVAL	ISSUING AGENCY	RECIPIENT
Maryland Certificate of Authority - to transact the business of a Health Maintenance Organization	Maryland Insurance Administration	CareFirst BlueChoice, Inc.
DC Certificate of Authority - to transact the business of a Health Maintenance Organization	DC Department of Insurance and Securities Regulation	CareFirst BlueChoice, Inc.
Virginia License - to transact the business of a Health Maintenance Organization and operate one or more MCHIP	Commonwealth of Virginia, State Corporation Commission – Bureau of Insurance	CareFirst BlueChoice, Inc.
Maryland Certificate of Authority - to transact the business of a Non-Profit Health Service Plan	Maryland Insurance Administration	Group Hospitalization and Medical Services, Inc.
DC Consent Order - granting authority to transact the business of a Hospital Services Corporation	DC Department of Insurance and Securities Regulation	Group Hospitalization and Medical Services, Inc.

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TYPE OF AUTHORITY/RIGHT REQUESTED	ISSUED BY	ISSUED BY
Virginia License - to transact the business of a Health Services Plan and operate one or more MCHIP	Commonwealth of Virginia, State Corporation Commission – Bureau of Insurance	Group Hospitalization and Medical Services, Inc.
DC Certificate of Authority - to transact the business of a Health Maintenance Organization	DC Department of Insurance and Securities Regulation	Free State Health Plan, Inc.
Maryland Certificate of Authority - to transact the business of a Health Maintenance Organization	Maryland Insurance Administration	Free State Health Plan, Inc.
Virginia License - to transact the business of a Life and Health Insurance Agent	Commonwealth of Virginia, State Corporation Commission – Bureau of Insurance	National Capital Insurance Agency, Inc.
Maryland Certificate of Authority - to transact the business of a Health Maintenance Organization	Maryland Insurance Administration	Delmarva Health Plan, Inc.
Delaware Certificate of Authority - to transact the business of a Health Maintenance Organization	Delaware Insurance Department	Delmarva Health Plan, Inc.
Private Review Agency License	Maryland Insurance Administration	Delmarva Health Plan, Inc.
Maryland Certificate of Authority - to transact the business of a Non-Profit Health Service Plan	Maryland Insurance Administration	FirstCare, Inc.

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STATEMENT OF AUTHORITY TO TRANACT BUSINESS	STATEMENT OF AUTHORITY TO TRANACT BUSINESS	STATEMENT OF AUTHORITY TO TRANACT BUSINESS
Maryland Certificate of Authority - to transact the business of a Non-Profit Health Service Plan	Maryland Insurance Administration	CareFirst of Maryland, Inc.
Registered as Physician's Practice Group	Maryland Insurance Administration	Patuxent Medical Group, Inc.
Private Review Agency License	Maryland Insurance Administration	Patuxent Medical Group, Inc.
Registered as Physician's Practice Group	Maryland Insurance Administration	Potomac Physicians, PA
Private Review Agency License	Maryland Insurance Administration	Potomac Physicians, PA
Delaware License - to transact the business of a Non-Profit Health Service Plan	Delaware Insurance Department	BlueCross BlueShield of Delaware Inc.
Maryland Certificate of Authority - to transact the business of a Non-Profit Health Service Plan	Maryland Insurance Administration	CareFirst, Inc.

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